November 30, 2017

Rep. Johnson, Speaker of the House  
Sen. Ashe, President Pro Tempore  
Vermont State House  
115 State Street  
Montpelier, VT 05633-0004

Dear Speaker Johnson and President Pro Tempore Ashe:

As required by 32 V.S.A. § 5402b, the Commissioner of Taxes, after consultation with the  
Agency of Education, the Secretary of Administration and the Joint Fiscal Office, shall forecast a  
property dollar equivalent yield, an income dollar equivalent yield, and a nonresidential tax rate  
by December 1. This letter is submitted in fulfillment of the statutory obligation. The Department  
of Taxes, Department of Finance and Management, Agency of Education, and the Joint Fiscal  
Office prepared consensus forecasts on various components of the Education Fund Operating  
Statement for Fiscal Year (FY) 2019 so that the required analysis could be performed. Many  
thanks go to the indispensable staff who performed this essential work.

5402b(a)(2) Mandated Forecast

In the statutorily mandated calculation and recommendation under 32 V.S.A. 5402b, the  
Commissioner must assume the following:

1. The homestead base tax rate is $1.00 per $100.00 of equalized education property value;

2. The applicable percentage under 32 V.S.A. 6066(a)(2) is 2.0;

3. The statutory reserves under 16 V.S.A. § 4026 are maintained at five percent; and

4. The percentage change in the median education tax bill applied to nonresidential  
property, homestead property, and taxpayers who claim a property tax adjustment is the  
same for all three types of payers.
The yields and non-residential rate that follow would support all forecasted FY19 education fund uses and restore the statutory reserves under 16 V.S.A. §4026 to five percent. Additionally, the percentage change in the median bills for non-residential property, homestead property, and those who claim an adjustment\(^1\) under 32 V.S.A. §6066(a) is projected to be equal under these yields and the non-residential rate.

<table>
<thead>
<tr>
<th>Homestead Yields and NR Rate</th>
<th>FY2018 (for comparison)</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homestead Property</td>
<td>$10,160</td>
<td>$9,842</td>
</tr>
<tr>
<td>Income</td>
<td>$11,990</td>
<td>$11,862</td>
</tr>
<tr>
<td>Non-Residential Property</td>
<td>$1,535</td>
<td>$1,629</td>
</tr>
</tbody>
</table>

**Average Rates**

If the forecasted yields and rates in this letter were adopted, the average 2018-2019 (FY2019) property tax rates would be as follows:

<table>
<thead>
<tr>
<th></th>
<th>FY2018 (for comparison)</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homestead Property</td>
<td>$1.50</td>
<td>$1.594</td>
</tr>
<tr>
<td>Income</td>
<td>2.55%</td>
<td>2.65%</td>
</tr>
<tr>
<td>Non-Residential Property</td>
<td>$1.535</td>
<td>$1.629</td>
</tr>
</tbody>
</table>

To put this into perspective, education property tax on a $250,000 homestead would increase by an average of $235. Those paying based on income would see a similar proportional increase.

**Education Spending Growth**

Total education spending is forecast to grow even as the number of pupils declines. On a per-pupil basis, the expected growth in spending is forecast to average about 3.9%.

<table>
<thead>
<tr>
<th></th>
<th>FY2018 (for comparison)</th>
<th>FY2019</th>
<th>Rate of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Education Spending</td>
<td>$1,348.4</td>
<td>$1,395.9</td>
<td>3.52%</td>
</tr>
<tr>
<td>($Millions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equalized Pupil Count</td>
<td>87,745</td>
<td>87,427</td>
<td>-0.36%</td>
</tr>
<tr>
<td>Average Per Pupil Spending</td>
<td>$15,367</td>
<td>$15,966</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

\(^1\) Those who claim an adjustment will pay FY19 taxes based on their 2018 household income. Economists for the legislature and administration provided consensus 2017 and 2018 household income growth factors for this analysis.
Education Funding Considerations

The projections in this letter are based on historical growth trends, historical pass/fail rates for local budgets, and district-level information available as of November 2017. The 3.52% overall growth in education spending is not inevitable, however, and of course will be influenced by decisions at the local level.

On November 15, Governor Scott sent a letter to education leaders urging districts to limit their growth in per pupil spending to 2.5 percent. The Governor’s letter, in part, was to communicate early in the school budgeting process the projected shortfall in the education fund for FY 19 and the compounded impact on tax rates of per pupil spending growing faster than the economy or wages. If no districts exceed 2.5% per-pupil spending growth in the budgets that are currently under development, the average increase in property taxes could be at least 3 cents lower than what is presented above.

While well understood by school boards, here is some additional education funding information that Vermonter’s should keep in mind as we encounter a challenging landscape for FY19:

- Local homestead education tax rate is determined by a district’s per-pupil spending, not its total education spending
- Those who pay based on income\(^2\) will see the same (proportional) impact on their tax bills as those who pay based on property
- While the statewide homestead education property tax rate is ultimately driven by aggregate statewide spending, locally-voted spending amounts remain the primary determinant of a town’s tax rate. For instance, in an average district, holding per pupil spending level could mitigate most of the projected 9 cent rate increase.

Please see the Department of Taxes’ website for additional tax rate computation resources.

\(^2\) Unless their household income is under $47,000, in which case statutory caps on total property taxes including municipal taxes may apply. 32 V.S.A. § 6066.
As we continue to lose an average of three students from our schools every single day, this rate increase is a sobering indication that the cost of our education system will not adjust to our demographic trajectory absent other efforts and interventions.

I'd like to emphasize again that these projections are the product of a statutorily prescribed process and are not imminent. I look forward to working with you in the upcoming legislative session on common sense solutions to the challenges we all face.

Sincerely,

Kaj Samsom
Commissioner, Department of Taxes

cc: Susanne Young, Secretary, Agency of Administration
    Rebecca Holcombe, Secretary, Agency of Education
    Adam Greshin, Commissioner, Department of Finance and Management
    Rep. Janet Ancel
    Sen. Ann Cummings
    Rep. David Sharpe
    Sen. Philip Baruth
    Stephen Klein, Joint Fiscal Office
    Luke Martind, Legislative Council